EASTERN PROVINCIAL AIRWAYS
annual report 1979

EASTERN PROVINCIAL AIRWAYS LIMITED
and Subsidiary Companies

Officers

Keith Alfred Miller
Chairman of the Board

Harold Raymond Steele
President & Chief Executive Officer

Harold Lewis Wareham
Executive Vice President

Bryan Goodwin Jones
Vice-President Engineering & Maintenance

Ivan John Kilpatrick
Vice-President Finance & Marketing

Roy Preston Rideout
Assistant to the President

William James Rose Whatley
Corporate Secretary

Head Office
Gander International Airport
Gander, Newfoundland

Bankers
Bank of Montreal, Gander, Nfld.
Ther Mercantile Bank of Canada, Montreal P.Q.

Shareholders Auditors
Peat, Marwick, Mitchell, & Co.
Chartered Accountants
St. John's, Newfoundland

Legal Counsel
Herridge, Tolmie
Ottawa, Ontario

Heenan, Blaikie, Potvin, Trepanier & Cobbett
Montreal, P.Q.

Aylward, Morris & Pittman
St. John's, Newfoundland

Transfer Agent & Registrar
The Royal Trust Company
St. John's, Halifax, Montreal
Toronto, Winnipeg, Regina, Calgary

Stock Listing
The Toronto Stock Exchange
The Montreal Stock Exchange

Directors

Keith Alfred Miller
Chairman of the Board
Eastern Provincial Airways

**Harold Raymond Steele
President & Chief Executive Officer
Eastern Provincial Airways

*Harold Lewis Wareham
Executive Vice President
Eastern Provincial Airways

Andrew Chesley Crosbie
Chairman & Chief Executive Officer
Crosbie Group of Companies
St. John's, Newfoundland

William E. Fearn
Deputy Minister of Finance
Province of Newfoundland & Labrador

*J. Claude Hebert
Consultant
Montreal, P.Q.

Arthur James Lewington
(Retired)
Gander, Newfoundland

Richard Henry Oland
Vice President Production
Moosehead Breweries
Saint John, N.B.

Alexander J. Roche
Vice-President National Sea Products Ltd.
St. John's, Newfoundland

Seymour Schulich
Vice-President Beutel Goodman & Company
Toronto, Ontario

*Members of the Executive Committee
**Chairman of the Executive Committee

CONTENTS

	1979	1978
Earnings		
Revenues - Gross	62,661,000	$56,534,000
Net Income	764,000	2,874,000
Earnings per Common Share - Basic	0.52	2.26
Average Common Share Outstanding	1,268,312	1,213,612
Financial Position		
Working Capital	2,057,000	1,497,000
Property and Equipment - Net	23,442,000	24,880,000
Long-Term Debt	15,743,000	16,762,000
Shareholders' Equity	5,682,000	5,591,000
Equity per Common Share	3.56	3.36
Operating Statistics		
Passengers Carried	840,000	780,000
Cargo Ton Miles	5,315,000	4,875,000
Revenue Ton Miles	36,740,000	34,194,000
Capacity Ton Miles	57,707,000	56,343,000
Revenue Weight Load Factor	63.7	60.7

Directors' Report to the Shareholders

This report covers my first full year as President and Chief Executive Officer.

I am not satisfied. Here are the reasons.

The Company recorded net income before extraordinary items of $516,000 or $0.33 per share for the year ended December 31st, 1979.

After taking into account extraordinary items, net income for the year amounted to $764,000 or $0.52 per share compared with $2,874,000 or $2.26 per share in 1978. However, 1978 results include an after tax gain on the sale of an aircraft amounting to $1.91 per share.

Revenue from all sources increased by 11.0% to $62,661,000. Revenue on scheduled services increased 13.6% to $51,140,000 while revenue from charter operations decreased by 6.8% to $5,222,000 as a result of the wind up of Caramac Tours. Other revenue including the Company's hotel operations increased by 9.3% to $4,599,000. The three month delay in receiving approval for a necessary fare increase early in the year and a general softening of the economy during the last quarter were inhibiting factors in reaching revenue objectives.

Operating expenses increased by 11.7% to $61,786,000. The two major expense items, wages and fuel, increased by 12.2% and 16.9% respectively. Landing fees and airport user charges increased by over 30% as did commissions paid to travel agencies. Of major concern was the unfavourable engine removal and overhaul costs experienced during the year.

In May 1979, the Federal Court of Canada upheld a Federal Sales Tax assessment against the Company in the amount of $815,200 relating to the purchase and importation of an aircraft in 1973. While this amount has been recorded in the accounts of the Company an appeal has been made under the Financial Administration Act.

Altogether the financial results for the year must be viewed as an inadequate return on investment. This is especially true if the Company is to be in a position to replace its equipment and improve its services.

On a more positive note, meaningful productivity gains were made in operations in 1979. The airline generated 48,359,000 revenue ton miles, an increase of 11.7% over the previous year. This was accomplished with less aircraft capacity in the fleet. Revenue ton miles generated per employee increased by 12.6% to 55,585. Revenue weight load factors on scheduled services averaged 63.7% compared with 60.7% in 1978.

The Company continues its aggressive stance. It is essential that we work towards improving the airline's

average stage length, a vital factor in keeping unit costs down.

To this end we applied for and got Halifax-Montreal direct service. We also applied for and at hearings held in Halifax forcibly asked for Halifax-Toronto. A decision in this latter case is not yet made. It is our contention that continued good service to the region is dependent on improving our total route structure.

The importance of new route awards to the long term financial viability of the Company cannot be over-emphasized. The Airline operates many costly short haul routes in the region where traffic densities are light. If it is to continue to provide and improve these services then it must have access to longer haul denser traffic routes. Only in this manner can higher operating efficiency in the utilization of aircraft and facilities be achieved and high yields obtained without having to resort only to higher fares.

In conjunction with Ontario and Quebec based investors the Company has made an offer to purchase Nordair. A successful purchase would be of benefit through improved utilization and support of aircraft and facilities and traffic generation. Again, it is hoped that a favourable decision will be made shortly on this matter.

The Training Centre at Halifax which houses the Boeing 737 Flight Simulator operated at near capacity. Over 4,900 hours of simulator training was performed with eleven North American, European and African Air Carriers. Training programs were also carried out for four Canadian operators of HS748 aircraft. Revenue from the Training Centre exceeded $1,100,000 for the year.

Negotiations for contract renewals with all major union groups have been in process since September and will be continuing during the next few months. A satisfactory agreement has been reached with the Flight Attendants, and similarly with the Pilots after a four day strike. Productivity gains are being stressed in all negotiations and it is hoped that satisfactory agreements will again be reached with remaining groups.

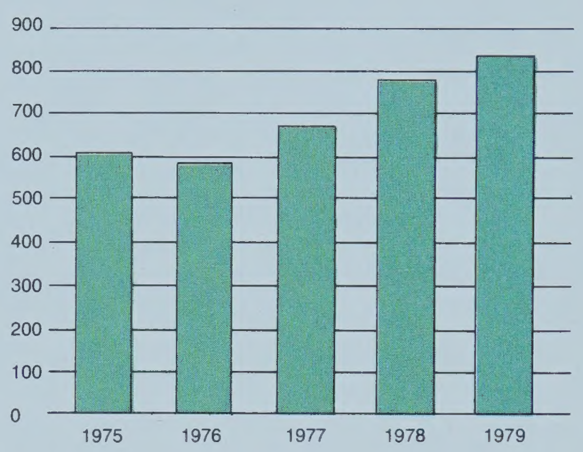
The outlook for the Company for 1980 is somewhat mixed. The year is off to a slow start. The basic elements underlying inflation look ominious. This together with record interest rates and higher fuel costs will have a major impact on air fares and therefore on airline traffic. Offsetting this will be the stimulative effect of major oil and gas discoveries and the possibilities of major hydro developments in the region. There is an overall optimism that has not been apparent in years.

Major efforts will continue to be made by the Company to strengthen its route structure. Methods will have to be devised to improve and facilitate the setting of fares so that rapidly escalating costs can be recovered. Aircraft types will have to be evaluated to meet the changing economics on certain routes and to replace older equipment. In all a busy year is foreseen with new challenges and new opportunities.

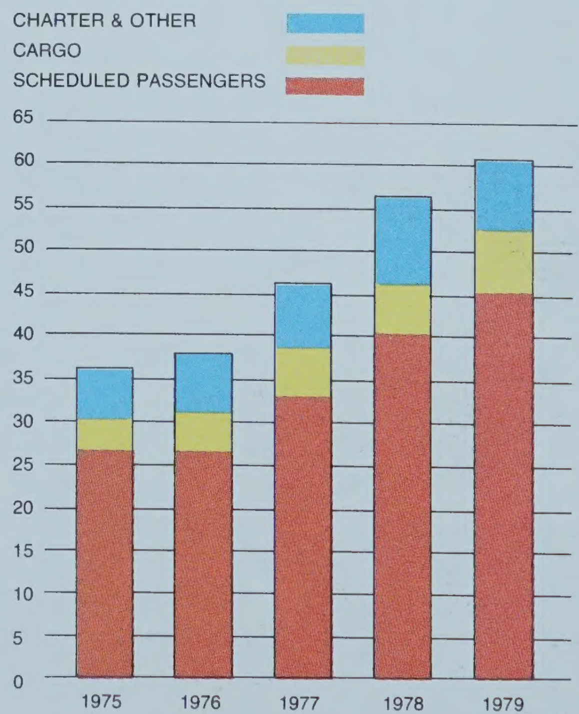
During the year certain changes took place in our senior executive group. Capt. M.B. Jones, Vice President Flight Operations and W.F. Gaudet, Vice President Marketing retired. B.G. Jones, Vice President Engineering and Maintenance has become Technical Consultant.

In the restructured senior management, H.L. Wareham, formerly Vice President Finance has become Executive Vice President and we welcomed to the ranks I.J. Kilpatrick as Vice President Finance, C.G. Bowring as Vice President of Engineering & Maintenance and Capt. A.C. Walker as Director of Flight Operations. Mr.

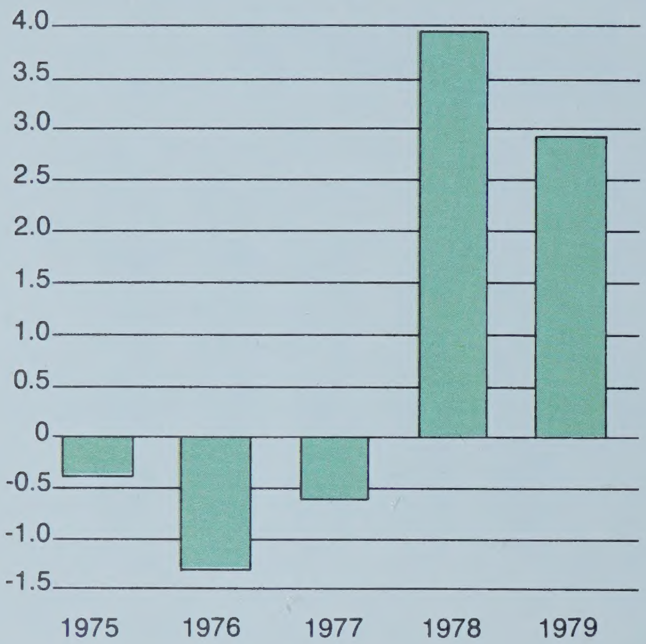
PASSENGERS CARRIED
SCHEDULED SERVICES
(THOUSANDS)



REVENUE
(MILLIONS)



FUNDS GENERATED FROM OPERATIONS
(MILLIONS)



Kilpatrick brings experience at a senior level in major Canadian industries. Mr. Bowring comes from a senior post with one of the larger American airlines and Capt. Walker is one of Eastern Provincial's own career men. All this is very positive.

The Board takes this opportunity to thank all our devoted employees for their participation during the past year and to seek their continued support in the challenging times ahead.

H. R. Steele,
President & Chief Executive Officer.

Flight simulator, Halifax Training Facility

Consolidated Statement of Income

YEAR ENDED DECEMBER 31, 1979
with comparative figures for 1978
(in thousands of dollars)

	1979	1978
Revenues		
Scheduled operations	$51,140	45,026
Government subsidies (Note 6)	1,700	1,700
Charter and other	9,821	9,808
	62,661	56,534
Expenses		
Operating (Note 7)	58,080	50,786
Depreciation and amortization	1,955	2,278
	60,035	53,064
Income from operations	2,626	3,470
Other income	125	3,594
	2,751	7,064
Interest and debt expense		
Long-term debt	1,650	2,113
Other	101	158
	1,751	2,271
Income before deferred income taxes and extraordinary item	1,000	4,793
Deferred income taxes	484	1,919
Net income before extraordinary item	516	2,874
Extraordinary item (Note 8)	248	-
Net income for the year	$ 764	2,874
Basic earnings per Common share		
Income before extraordinary item	$ 0.33	$ 2.26
Net income for the year	$ 0.52	$ 2.26

See accompanying notes to consolidated financial statements

Consolidated Statement of Changes in Financial Position

YEAR ENDED DECEMBER 31, 1979
with comparative figures for 1978
(in thousands of dollars)

	1979	1978
Funds provided by		
Operations		
Net income for the year before extraordinary item	$ 516	2,874
Items not involving funds	2,554	949
Funds provided by operations	3,070	3,823
Sale of property and equipment	67	8,790
Long-term borrowings	1,100	1,506
Other	12	114
Total funds provided	4,249	14,233
Funds applied to		
Property and equipment	880	4,112
Long-term debt	2,119	6,442
Dividends	515	1,424
Purchase for cancellation of preferred shares	175	102
Total funds applied	3,689	12,080
Increase in working capital	560	2,153
Working capital (deficiency) as at beginning of year	1,497	(656)
Working capital as at end of year	$2,057	1,497

See accompanying notes to consolidated financial statements

Assets

	1979	1978
Current assets:		
Cash and term deposits	$ 684	1,539
Short-term investments, at cost (market value $288,600; 1978 - $175,900)	350	193
Receivables (Note 2)	6,336	6,993
Materials, supplies and parts, at the lower of cost and replacement cost	2,367	2,089
Prepaid expenses	601	521
Total current assets	10,338	11,335
Investments, at cost	736	731
Property and equipment, at cost		
Flight equipment	17,050	16,862
Buildings and ground equipment	16,097	15,597
	33,147	32,459
Less accumulated depreciation	9,705	7,579
Net property and equipment	23,442	24,880
Deferred charges, at cost less amortization	449	633
Goodwill, at cost	1,856	1,856
	$36,821	39,435

Consolidated Balance Sheet
DECEMBER 31, 1979
with comparative figures for 1978 (in thousands of dollars)

Liabilities and Shareholders' Equity

	1979	1978
Current liabilities:		
Bank indebtedness	$ -	1,693
Accounts payable and accrued liabilities	4,525	4,693
Current portion of long-term debt (Note 3)	1,754	1,454
Deferred revenue	2,002	1,998
Total current liabilities	8,281	9,838
Long-term debt (Note 3)	15,743	16,762
Provision for overhaul of aircraft engines	1,524	1,474
Unamortized portion of government grants toward acquisition of property and equipment (amortized to date $1,107,000; 1978 - $692,000)	3,793	4,208
Deferred income taxes	1,798	1,562
Shareholders' equity (Note 4)		
Capital stock	3.012	3,177
Contributed surplus	44	37
Retained earnings	2,626	2,377
Total shareholders' equity	5,682	5,591
Commitments and contingent liabilities (Note 5)		
	$36,821	39,435

See accompanying notes to consolidated financial statements

ON BEHALF OF THE BOARD:

H R Steele .... DIRECTOR

.... DIRECTOR

Consolidated Statement of Retained Earnings

YEAR ENDED DECEMBER 31, 1979
with comparative figures for 1978
(in thousands of dollars)

	1979	1978
Retained earnings as at beginning of year		
As previously reported	$3,048	1,598
Federal sales tax assessment (Note 9)	(671)	(671)
As restated	2,377	927
Net income for the year	764	2,874
Dividends		
Preferred shares - Series A	33	77
- Series B	70	208
Common shares	412	1,139
	515	1,424
Retained earnings as at end of year	$2,626	2,377

See accompanying notes to consolidated financial statements

AUDITOR'S REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Eastern Provincial Airways Limited as at December 31, 1979 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co
Chartered Accountants

St. John's, Canada
February 22, 1980

1. Summary of Significant Accounting Policies

(a) Basis of consolidation
The consolidated financial statements include the accounts of Eastern Provincial Airways Limited and its wholly-owned subsidiary companies, Eastern Provincial Airways (1963) Limited, and Atlantic Inns Limited. During the year Maritime Central Airways Limited and Caramac Travel Consultants Limited were wound up.

Goodwill represents the excess of cost of investment in shares over equity in net assets of a former subsidiary acquired in 1963.

(b) Depreciation
Depreciation on property and equipment is provided from the date assets are placed in service at rates which are related to the estimated useful lives of the assets, as follows:

	Useful Life	Residual Value
Flight equipment		
Jet aircraft	14 years	15%
Propeller aircraft	10 years	10%
Buildings	20 and 40 years	-
Ground equipment	5 years	-

(c) Capitalization of interest
Interest is capitalized on expenditures related to the acquisition of property and equipment before such assets are placed in service.

(d) Overhaul provision
Provision for major overhauls of owned and leased aircraft engines is made based on aircraft flying time at rates per hour computed in relation to the estimate costs of the overhauls.

(e) Amortization
Deferred charges are amortized on a straight-line basis over five years with the exception of deferred financing expenses which are amortized over the terms of the related financing.

(f) Government grants
Government grants towards acquisition of property and equipment are recorded as deferred credits and amortized on the same basis as the related asset is depreciated.

(g) Revenue recognition
The recognition of revenue is deferred until the related services are rendered. Prepayments of such services as at the year end are included in deferred revenue.

(h) Foreign currencies
Current balances receivable and payable in foreign currencies have been translated to Canadian dollars at the rate of exchange prevailing as at the balance sheet date. Non-current balances in foreign currencies have been translated at historical rates of exchange.

(i) Earnings per Common Share
Basic earnings per share information has been computed using the weighted average number of Common Shares outstanding during the year.

2. Receivables

	1979	1978
	(in thousands of dollars)	
Trade	$5,148	5,325
Government subsidies	850	1,300
Other	338	368
	$6,336	6,993

Receivables are assigned as security for bank indebtedness.

3. Long-Term Debt

	Current Portion 1979	Total 1979	Total 1978
	(in thousands of dollars)		
Bank term loans:			
At prime repayable $600,000 per year to 1981	$ 600	5,400	6,000
6% repayable in 10 equal semi-annual instalments commencing July 10, 1980 secured by a chattel mortgage on an aircraft ($U.S. - $2,591,000)	256	2,562	2,562
Other, repaid in 1979	-	-	780
Total bank term loans	856	7,962	9,342
$6\frac{1}{2}$% sinking fund debenture due March 1991		6,000	6,000
Sinking fund investments - at par		4,713	4,348
		1,287	1,652

11% loan, repayable in blended monthly instalments of $43,000 to 1997, secured by a hangar building	83	4,083	4,157
Federal sales tax assessment payable (Note 9)	815	815	815
	1,754	14,147	15,966
Reclassification of current liabilities to be financed from long-term borrowings	-	3,350	2,250
	$1,754	17,497	18,216
Less portion due within one year included in current liabilities		1,754	1,454
Long-term debt		$15,743	16,762

The $5,400,000 bank term loan is secured by an unconditional guarantee of the Province of Newfoundland expiring on December 31, 1981 at which time the Company will refinance the loan.

The sinking fund debentures are unconditionally guaranteed by the Province of Newfoundland; this guarantee being secured by a first and specific mortgage on certain assets and a first floating charge on certain other assets. The sinking fund investments together with future earnings of the fund will be sufficient to retire the principal amount of the sinking fund debentures at maturity. The sinking fund debenture agreement required a balance in the sinking fund at December 31, 1979 of $3,475,000.

Current liabilities to be financed from long-term borrowings are related to:

(a) $2,250,000 for a hotel extension that was completed in 1978. As at December 31, 1979 bank term loan financing had been arranged, but had not been drawn down. The term loan, when drawn down, will be repayable over 20 years in quarterly instalments of $28,125, plus interest at prime plus 1½% and will be secured by a general assignment of book debts and a $2,450,000 fixed and floating charge debenture on certain assets; and,

(b) $1,100,000 for an aircraft purchased in 1978. As at December 31, 1979 bank term loan financing had been arranged, but had not been drawn down. The term loan, when drawn down, will be repayable over 5 years in monthly instalments of $18,333 plus interest at prime plus 2% and will be secured by a chattel mortgage on an aircraft.

In connection with certain loan and lease agreements the Company and its subsidiaries have agreed to, among other things:

(a) maintain a minimum working capital, as defined, of $1,000,000;
(b) maintain a minimum net worth, as defined, of $5,000,000;
(c) not declare or pay dividends in any one year in excess of 30% of its net income for the previous year;
(d) not make capital expenditures in excess of $500,000 in any one year; and,
(e) not incur, assume or guarantee any additional indebtedness; except for current purposes exceeding $2,000,000.

These items may be waived with prior consent of the lenders and lessors.

Maturities on long-term debt other than the 6½% sinking fund debentures for the five years ending December 31, 1980 through 1984 amount to $1,754,000; $1,430,000; $840,000; $851,000; and, $856,000 respectively. Maturities on the $2,250,000 of the undrawn debt and the $5,400,000 bank term loan after 1981 are not included in the foregoing principal repayments.

4. Shareholders' Equity

	1979	1978
	(in thousands of dollars)	
Preferred shares of $15 par value each, issuable in series. Authorized - 135,000 shares. Series A - 6% cumulative, redeemable, Preferred shares. Authorized 67,000 shares; issued and outstanding 36,370 shares (1978 - 37,870 shares)	$ 546	568
Series B - 10¾%, cumulative, redeemable Preferred shares. Authorized 68,000 shares; issued and outstanding 40,800 shares (1978 - 51,000 shares)	612	765

Deferred shares of $100 par value each. Authorized 47,500 shares; issued and eliminated on consolidation - 24,964 shares (1978 - 24,964 shares)	-	-
Common shares without nominal or par value. Authorized 3,000,000 shares; issued 1,270,135 shares (1978 - 1,265,989 shares)	1,854	1,844
Total capital stock	$3,012	3,177

Pursuant to the redemption conditions attaching to the Series A Preferred shares the Company is required, while there are no dividends in arrears on Series A Preferred shares, to apply each year to the purchase for cancellation of these shares an amount equal to at least three percent of the aggregate par value of Series A Preferred shares outstanding at the end of the preceding year.

Pursuant to the redemption conditions attaching to the Series B Preferred shares the Company redeemed, at par value, 10,200 shares during 1979, for an aggregate consideration of $153,000, and is required to redeem, at par value, before April 15, 1980, 40,800 shares.

In accordance with Section 49 of The Companies' Act, Newfoundland, retained earnings, totalling $484,300 has been appropriated as a "capital redemption reserve fund" which is restricted as to distribution.

50,000 Common Shares are reserved for issuance to employees (other than present directors and officers) under a Stock Purchase Plan. No shares have been offered under this plan as at December 31, 1979. Pursuant to an employee Stock Option Plan options for 4,146 shares were exercised during the year. This Stock Option Plan expired on December 14, 1979.

5. Commitments and Contingent Liabilities

(a) Aircraft leases

As at December 31, 1979, the Company had the following aircraft lease commitments:

		Lease Purchase Option	
	Basic Annual Rental	Option Date	Option Price
3 Boeing 737's	$1,702,000	December, 1984	Fair Market Value
1 Boeing 737	826,000	June, 1985	$1,200,000
1 Boeing 737	781,000	March, 1988	1,260,000
1 Hawker Siddeley HS-748	183,000	December, 1985	264,000
1 Hawker Siddeley HS-748	174,000	December, 1981	450,000
	$3,666,000		

Of the total basic annual rental $1,351,000 is payable in U.S. dollars.

The Canadian Institute of Chartered Accountants has issued Recommendations with respect to accounting for capital lease transactions. These Recommendations are applicable to all lease transactions entered into during financial years commencing on or after January 1, 1979. Had the Company applied the Recommendations on a retroactive basis to those capital aircraft leases in existence as at December 31, 1979 that have been accounted for as operating leases, the effect on the financial statements would have been as follows:

	1979	1978
	(in thousands of dollars)	
(a) Assets would increase with the addition of flight equipment under capital leases, at cost less accumulated depreciation	$18,295	20,127
(b) Obligations under capital leases would increase by (including obligations payable of U.S. $7,291,000)	$18,695	20,735
(c) Increase in net income for the year	$ 106	30

Pursuant to certain of these lease agreements the Company has pledged investments as security in the amount of $575,000.

(b) Lease of hotel building
On January 1, 1977, the Company entered into an agreement to lease a hotel building for a period of five years at an annual rental of $150,000 with an option to purchase the building at any time during the lease term for the sum of $1,650,000.

6. Government Subsidies

Certain of the routes serviced by the Company are eligible for federal subsidies. The Canadian Transport Commission has restricted the subsidies to $1,700,000 for each of 1979 and 1978 regardless of the cost of providing these services. Accordingly, although the Company has submitted a claim of $1,980,000 (1978 - $2,245,000) for providing these services only $1,700,000 has been recorded in the accounts in each of the years 1979 and 1978.

7. Operating Expenses

Operating expenses for 1979 have been reduced by $540,000 resulting from an actuarial evaluation, performed during the year, of the Company's pension plan.

8. Extraordinary Item

The Company has recognized the benefit of Caramac Travel Consultants Limited previous years income tax losses as a result of its wind-up (Note 1). The tax losses total $709,000, expiring by 1984, of which $204,000 has been applied to reduce current years deferred income taxes.

9. Prior Period Adjustment

During the year, the Federal Court of Canada upheld a federal sales tax assessment against the Company in the amount of $815,000, relating to the purchase and importation of an aircraft in 1973. This amount, net of deferred income taxes of $144,000, has been charged to retained earnings as a prior period adjustment. Appeal procedures are continuing.

10. Renumeration of Officers and Directors

The aggregate direct remuneration paid by the Company to its directors and senior officers for the year ended December 31, 1979 was $503,000 (1978 - $432,000).

11. Comparative Figures

Certain of the 1978 comparative figures have been reclassified to conform with the financial statement presentation adopted for 1979.

Glynmill Inn — Corner Brook, Newfoundland

Statistical Review

	1979	1978	1977	1976	1975
Financial ($000's)					
Revenues					
Scheduled Passengers	$44,074	$38,929	$32,602	$26,311	$24,983
Cargo	7,066	6,097	4,860	4,587	3,991
Government Subsidies	1,700	1,700	1,700	1,700	1,700
Charter & Other	9,821	9,808	7,199	6,053	5,228
	$62,661	$56,534	$46,361	$38,651	$35,902
Expenses					
Operating	$53,778	$46,969	$40,917	$35,520	$32,222
% of Revenues	85.8%	83.1%	88.3%	91.9%	89.7%
Depreciation, Aircraft Rentals & Interest	$ 8,008	$ 8,366	$ 7,699	$ 6,941	$ 5,766
% of Revenues	12.8%	14.8%	16.6%	18.0%	16.1%
Deferred Income Taxes	$ 484	$ 1,919	$ (958)	$(1,226)	$ (342)
Net Income (Loss)	$ 764	$ 2,874	$(1,215)	$(1,083)	$ (190)
Per Common Share	$ 0.52	$ 2.26	$ (1.12)	$ (1.03)	$ (0.27)
Funds Provided from (Applied to) Operations	$ 2,926	$ 3,823	$ (508)	$(1,360)	$ (405)
Per Common Share	$ 2.22	$ 2.91	$ (0.55)	$ (1.23)	$ (0.45)
Other Statistics					
Scheduled Operations					
Passengers Carried	840,000	780,000	669,000	593,000	604,000
Pass. Miles Flown (000)	314,000	293,000	257,000	225,000	238,000
Yield per Passenger Mile	14.0¢	13.3¢	12.7¢	11.6¢	10.5¢
Cargo Ton Miles (000)	5,315	4,875	3,871	3,876	3,799
Yield per Cargo Ton Mile	$ 1.33	$ 1.25	$ 1.26	$ 1.18	$ 1.05
Total Revenue Ton Miles (000)	36,740	34,194	29,580	26,340	27,575
Capacity Ton Miles (000)	57,707	56,346	53,198	50,836	51,532
Revenue Weight Load Factor	63.7%	60.7%	55.6%	51.8%	53.5%
Employees at Year End	894	886	830	787	771
Revenue Ton Miles per Employee	41,096	38,600	35,600	33,500	35,800

Glossary of Terms

CAPACITY TON MILES

Number of tons capacity for the carriage of passengers and cargo multiplied by the number of miles this capacity is flown. A measure of aircraft capacity offered.

CARGO

Freight, express, mail and excess baggage.

CARGO TON MILES

Tons of freight, express, mail and excess baggage carried multiplied by the miles they are flown.

REVENUE PASSENGER MILES

Total revenue passengers carried multiplied by the number of miles they are flown.

REVENUE TON MILES

Total tons of all revenue traffic carried multiplied by the miles they are flown.

REVENUE WEIGHT LOAD FACTOR

Total revenue ton miles as a percent of the capacity ton miles.

YIELD

The average revenue per revenue passenger mile or revenue ton mile.

Convenient
Connecting
Flights To
Calgary
Chicago
Edmonton
New York
San Francisco
Vancouver
Winnipeg
Churchill
Falls
Goose Bay
Wabush
Deer Lake
Gander
St. John's
Stephenville
Charlo
Iles de la Madeleine
Chatham
Charlottetown
Sydney
Montreal
Moncton
Fredericton
Saint John
Halifax

rb
ROBINSON-BLACKMOR

PRESIDENT'S REPORT

TO THE SHAREHOLDERS

Operating results for the second quarter of 1979 reflect a continued improvement in load factors on scheduled services. Net earnings amounted to $401,000 or 30¢ per share compared with net earnings of $305,000 or 22¢ per share for the second quarter of 1978.

For the six month period ended June 30, 1979, net earnings amounted to $135,000 or 6¢ per share compared with $113,000 or 4¢ per share for the corresponding period in 1978. Total revenue increased by 17.1% to $23,820,000. There was a detrimental effect on the first quarter earnings as a result of a delay in receiving a fare increase from January to April.

Load factors on scheduled services in the first half of 1979 averaged 63.8% compared with a load factor of 57.1% last year. This improvement results from an increase of 13.2% in revenue ton miles flown with only an increase of 1.3% in capacity offered. Passenger miles increased by 12.0% and cargo ton miles increased by 20.3%.

Charter revenues increased by 11.4% to $3,366,000 with an increase of 5.1% in charter hours flown.

The Airline's subsidiary tour operator, Caramac Travel Consultants, had a 35.1% increase in business during the first six months of 1979. Despite this increase yields were inadequate. Deep discount fares offered by scheduled air carriers had a major impact on the yields of the tour operators such as Caramac. In view of this, the devalued Canadian dollar and the uncertainties over international fuel supply and prices, Caramac's operations were closed on June 30, 1979.

Direct route access to Montreal and Toronto from Halifax is the key to the long-term financial viability of your Company. Your management will continue to seek, in a vigorous and concerted manner, approval of the applications for these routes which have been filed with the Canadian Transport Commission.

During May the Federal Court of Appeal upheld a Federal Sales Tax Assessment of $815,000 (including interest of $232,000) relating to the purchase of a Boeing 737 Aircraft. Although this judgment is being appealed, provision has been made in the accounts during this quarter which resulted in a charge to retained earnings of $560,000 and a reduction in working capital of $815,000.

Fuel, user charges and other costs continue to escalate. A general passenger fare and cargo tariff increase averaging 4% has been filed with the Canadian Transport Commission to be effective September 1, 1979.

The economy in Atlantic Canada remains stable and is expected to continue so for the balance of the year. Traffic in July is on target and it is expected that the Company will meet its profit objectives for the year.

H.R. Steele

H.R. STEELE
President & Chief Executive Officer

EASTERN PROVINCIAL AIRWAYS LIMITED

Comparative Highlights for the Six Months Ended June 30, 1979

	1979	1978
EARNINGS:		
Revenue - Gross	**$31,128,000**	26,581,000
Net Income	**135,000**	113,000
Net Earnings per Common Share	**0.06**	0.04
FINANCIAL POSITION:		
Working Capital (Deficiency)	**2,708,000**	(963,000)
Property & Equipment	**23,597,000**	29,618,000
Shareholders' Equity	**5,465,000**	4,874,000
Equity per Common Share	**3.40**	2.14
SCHEDULED OPERATIONS:		
Passengers Carried	**402,801**	363,241
Cargo Ton Miles	**2,762,884**	2,295,935
Revenue Ton Miles	**17,535,252**	15,484,866
Capacity Ton Miles	**27,473,144**	27,115,133
Revenue/Weight Load Factor %	**63.8**	57.1

EASTERN PROVINCIAL AIRWAYS LIMITED

Consolidated Statement of Earnings

($000)

(Unaudited)

	3 MONTHS ENDED JUNE 30		6 MONTHS ENDED JUNE 30	
	1979	**1978**	**1979**	**1978**
REVENUE:				
Scheduled Operations	**$12,947**	10,762	**$23,820**	20,336
Government Subsidies	**425**	424	**849**	849
Charter and Other	**2,840**	2,580	**6,459**	5,396
	16,212	13,766	**31,128**	26,581
EXPENSES:				
Operating	**14,451**	12,162	**28,825**	24,242
Depreciation and Amortization	**495**	600	**989**	1,190
	14,946	12,762	**29,814**	25,432
EARNINGS FROM OPERATIONS	**1,266**	1,004	**1,314**	1,149
OTHER INCOME (EXPENSE)	**71**	119	**(2)**	131
	1,337	1,123	**1,312**	1,280
INTEREST EXPENSE	**446**	562	**869**	1,102
EARNINGS BEFORE INCOME TAXES	**891**	561	**443**	178
DEFERRED INCOME TAX PROVISION	**490**	256	**308**	65
NET EARNINGS	**$ 401**	305	**$ 135**	113
BASIC EARNINGS PER COMMON SHARE	**$ 0.30**	0.22	**$ 0.06**	0.04

EASTERN PROVINCIAL AIRWAYS LIMITED

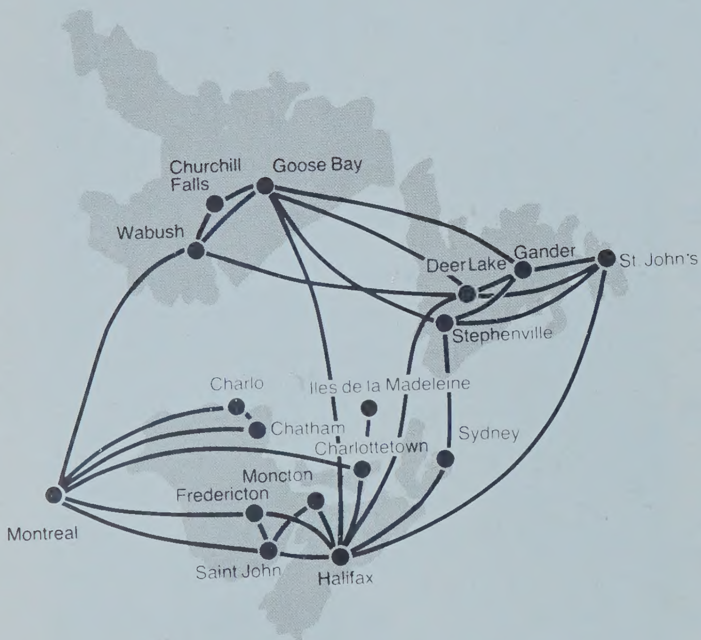
Consolidated Statement of Changes in Financial Position

($000)

(Unaudited)

	3 MONTHS ENDED JUNE 30		6 MONTHS ENDED JUNE 30	
	1979	1978	1979	1978
FUNDS PROVIDED BY				
Operations				
Net Income for the period	$ 401	305	$ 135	113
Non cash items — Net	1,136	1,136	1,473	1,784
Funds Provided by Operations	1,537	1,441	1,608	1,897
Long Term Borrowing	1,100	2,085	1,100	2,230
Reduction in Investments	—	61	—	61
Issue of Common Shares	3	—	8	—
Total Funds Provided	2,640	3,587	2,716	4,188
FUNDS APPLIED TO				
Property and Equipment				
Aircraft and Spares	21	1,344	51	1,520
Other	95	924	218	1,181
Long Term Debt	20	684	40	867
Deferred Charges	—	10	—	10
Dividends	25	—	212	—
Redemption of Preferred Shares	153	102	169	102
Total Funds Applied	314	3,064	690	3,680
INCREASE IN WORKING CAPITAL	2,326	523	2,026	508
WORKING CAPITAL (DEFICIENCY) AT BEGINNING OF PERIOD As restated (NOTE)	382	(1,486)	682	(1,471)
WORKING CAPITAL (DEFICIENCY) AT END OF PERIOD	$2,708	(963)	$2,708	(963)

NOTE: In 1979, the Company recorded a Federal Sales Tax Assessment in the amount of $560,000, net of income taxes, related to an aircraft purchase in 1973. Opening balances of Retained Earnings and Working Capital [Deficiency] for the period ended June 30, 1978, previously reported as $1,598,000 and [$656,000] respectively have been restated to show a retroactive adjustment of $560,000 and $815,000 respectively.



EASTERN PROVINCIAL AIRWAYS

2nd. Quarter Report

JUNE 30, 1979

EASTERN PROVINCIAL AIRWAYS